

## Message Text

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ACTION ARA-06

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FM AMEMBASSY PORT OF SPAIN

TO SECSTATE WASHDC 8001

C O N F I D E N T I A L PORT OF SPAIN 1654

LIMDIS

E.O. 11652: GDS

TAGS: ENRG EINV TD US

SUBJECT: GOTT AND TESORO RESOLVE DIFFERENCES

REF: A) POS 1359; B) POS 1388

1. SUMMARY: EMBASSY LEARNED ON A HIGHLY CONFIDENTIAL BASIS DETAILS OF AN AGREEMENT BETWEEN GOTT AND THE U.S.-BASED TESORO PETROLEUM CORPORATION WHICH RESOLVES DISPUTE OVER INCOME TAXES TO BE PAID BY JOINT-VENTURE TRINIDAD-TESORO PETROLEUM CO. LTD. GOTT AGREED TO RESCIND APPLICATION OF ITS UNILATERALLY-IMPOSED TAX REFERENCE PRICE ON THE COMPANY'S PRODUCTION SINCE JANUARY 1, 1974, AND THE COMPANY AGREED TO NEGOTIATE WITH GOTT A TAX REFERENCE PRICE APPLICABLE ONLY TO ITS OFFSHORE PRODUCTION AND EFFECTIVE SEPTEMBER 30, 1975. TESORO OFFICIALS GIVE HIGH MARKS TO THEIR TRINIDADIAN CHAIRMAN, BERNAD PRIMUS, FOR SUCCESSFULLY HOLDING GOTT TO BOTH LETTER AND SPIRIT OF THEIR JOINT-VENTURE AGREEMENT. END SUMMARY.

2. ACCORDING TO AN AMERICAN OFFICER OF THE TRINIDAD-TESORO PETROLEUM CO. LTD. (50.1 PERCENT OWNED BY GOTT AND 49.9 PERCENT BY TESORO PETROLEUM CORP., SAN ANTONIO, TEXAS), A SERIOUS DISPUTE WHICH THREATENED TO TERMINATE THE JOINT-VENTURE AGREEMENT HAS BEEN SATISFACTORILY RESOLVED. DISPUTE AROSE WHEN GOTT UNILATERALLY ANNOUNCED IN 1974 BUDGET SPEECH IMPOSITION OF TAX  
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REFERENCE PRICES WHICH WOULD BE USED TO FIGURE INCOME

TAX LIABILITY OF ALL PETROLEUM PRODUCERS IN TRINIDAD. THESE PRICES, IMPOSED RETROACTIVELY TO JANUARY 1, 1974, CONTRAVENED THE GOTT-TESORO JOINT-VENTURE AGREEMENT WHICH STIPULATED THAT TAXATION WOULD BE BASED UPON CRUDE OIL PRICES DETERMINED BY CRITERIA OF AN "ARM'S LENGTH TRANSACTION." TRINIDAD-TESORO PAID TAXES DUE SINCE THAT DATE UNDER PROTEST, SAYING THAT THE TAX DUE AS A RESULT OF THE REFERENCE PRICE (STILL NOT REVEALED BUT UNDERSTOOD TO BE BETWEEN 140 AND 145 PERCENT OF ACTUAL REALIZED PRICES) WAS CONFISCATORY SINCE THE PETROLEUM PROFITS TAX RATE (NOW 50 PERCENT) WOULD FORCE THE COMPANY TO OPERATE AT A LOSS. TRINIDAD-TESORO OFFICIALS REPEATEDLY TOLD GOTT THAT TAX REFERENCE PRICE VIOLATED THEIR AGREEMENT, BUT PETROLEUM OFFICIALS SAID THAT TAXATION WAS DETERMINED BY THE FINANCE MINISTRY, AND FINANCE OFFICIALS CLAIMED THAT THEY HAD NO DISCRETION UNDER THE LAW NOT TO APPLY TAX REFERENCE PRICES TO ALL PRODUCERS. MATTER WAS EXTREMELY COMPLICATED, SINCE TESORO'S MODEST PRODUCTION (21,000 BPD) INVOLVES SEVERAL QUALITIES OF CRUDE, BOTH ON- AND OFF-SHORE, AND INCLUDES PRODUCTION FROM CONSORTIA INVOLVING GOTT AND OTHER OIL COMPANIES.

3. SINCE MARCH OF THIS YEAR, TESORO OFFICIALS HAVE ATTEMPTED TO IMPRESS UPON GOTT THAT THEY WOULD NOT OPERATE AT A LOSS, AND THAT THEY WOULD IF NECESSARY TAKE GOTT TO COURT OVER TAXATION ISSUE. GOTT OFFICIALS SEEMED INTRANSIGENT ON ISSUE, AND LOCAL OIL INDUSTRY ABOUNDED WITH RUMORS THAT GOTT (SOME SAID PRIME MINISTER WILLIAMS) WAS DISPLEASED WITH TESORO AND INTENDED TO DRIVE THE FIRM OUT OF THE COUNTRY. NEVERTHELESS, TESORO OFFICIALS CREDIT TRINIDAD-TESORO'S CHAIRMAN BERNARD PRIMUS WITH FORCEFULLY IMPRESSING UPON GOTT IMPORTANCE OF UPHOLDING JOINT-VENTURE AGREEMENT, AND GOTT EVENTUALLY AGREED TO CALCULATE TRINIDAD-TESORO'S TAXES FROM JANUARY 1, 1974 THROUGH SEPTEMBER 30, 1975 ON REALIZED PRICES INSTEAD OF THE TAX REFERENCE PRICE, AND TO CREDIT ADDITIONAL TAXES ALREADY PAID TO FUTURE TAX LIABILITIES. FOR ITS PART, TESORO AGREED TO ACCEPT FUTURE IMPOSITION (FROM SEPTEMBER 30) OF A TAX REFERENCE PRICE ON ITS OFFSHORE PRODUCTION AND ITS PRODUCTION FROM PARTICIPATION

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IN CONSORTIA WITH OTHER OIL COMPANIES.

4. COMMENT: RESOLUTION OF THIS DISPUTE IS IMPORTANT SINCE TRINIDAD-TESORO IS THE OLDEST AND MOST PROMINENT JOINT VENTURE IN WHICH THE GOTT HAS ENTERED, AND IT COMES AT A TIME WHEN THE GOTT IS ENGAGED IN HIGHLY-PUBLICIZED EFFORTS TO ATTRACT MAJOR INDUSTRIAL FIRMS AS JOINT-VENTURE PARTNERS IN AN AMBITIOUS INDUSTRIAL DEVELOPMENT

PROGRAM. IT ALSO SHOULD STRENGTHEN PRIMUS' HAND IN DEALING WITH POTENTIAL INVESTORS (HE IS CHAIRMAN OF THE GOVERNMENT'S INDUSTRIAL DEVELOPMENT CORPORATION) AND IN NEGOTIATIONS WITH TEXACO (HE IS HEAD OF A FIVE-MAN TEAM APPOINTED TO NEGOTIATE A GOTT PARTICIPATION IN TEXACO'S TRINIDAD INVESTMENTS -- SEE REF B).  
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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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